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REACTION TO FARM EXPORT CONTROLS: The Western Europeans and the Japanese are concerned and confused over the President's indication of possible export controls on farm products.

EC Commissioner for Agriculture Lardinois has sought clarification from the US mission in Brussels, expressing anxiety about the effects of such restrictions on world supplies. He also asked how such action would affect the multilateral trade negotiations in which the EC had expected the US to press hard for improved access to foreign agricultural markets. Lardinois said that community members are now likely to renew pressure for measures under the common agricultural policy to increase community production and alleviate the tight supply situation.

Lardinois expects a renewed French request for a common agricultural policy for soybeans, with support mechanisms to encourage European, primarily French, production. Even before the President's speech, there had been French agitation for measures to ensure supplies of high protein animal feed grains. French officials had complained that protein meals, which have free entry into the community, are the only major group of products for which the EC has no common agricultural policy and that prices have been rising more rapidly for these products than for any other group.

French agricultural spokesmen have insisted that the world protein shortage demands more attention, especially from the US, which supplies almost all the protein meal to Europe. They have recommended as an initial step an exchange of views on the future demand-supply situation among principal world users and suppliers and contend it is not tolerable simply to let free market forces operate.

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Expressions of "shock" by Japanese officials reflect fear that US agricultural exports will be restricted. Japan is a major importer of US farm commodities and is dependent on the US as a source. The officials noted that Tokyo had recently encouraged a shift of further Japanese trade to the US rather than other suppliers as a way to reduce the US trade deficit with Japan. [REDACTED]

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SOUTH VIETNAM: Early reporting indicates there has been continued fighting in some areas of the country after the beginning of the "new" cease-fire, most notably in Kontum Province in the highlands and Chuong Thien in the delta. It is not clear whether this is new action or a spillover of earlier activity. The upsurge in military action immediately preceding the cease-fire of 15 June resulted in no significant change in the relative position of the two sides with respect to control over territory or people. [REDACTED]

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JAPAN: Mounting imports and heavy long-term capital outflows resulted in a \$1.18-billion deficit in the balance of payments last month, the third consecutive monthly deficit in excess of \$1 billion. Imports rose 71 percent compared with May of last year and exports only 33 percent, causing the trade surplus to shrink from \$512 million in May 1972 to \$80 million last month. The net outflow of long-term capital in May was a record \$960 million--the result of continued heavy overseas investment and lending, sale of Japanese securities by foreigners, and repayment of debts to the US. So far this year, Japan has run an over-all balance-of-payments deficit of nearly \$3.2 billion compared to a \$1.2 billion surplus in the first five months of 1972. [REDACTED]

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